



**Prepared Statement of  
Larry Gray, CPA  
Alfermann Gray & Co.  
On behalf of the  
National Association of Tax Professionals**

**On**

**The Paperwork Reduction Act and the  
Burden of Paperwork on Taxpayers**

**Before the**

**Subcommittee on Government Reform Regulatory Affairs  
U.S. House of Representatives  
Candice S. Miller, Chairwoman**

**May 25, 2005**

**National Association of Tax Professionals • PO Box 8002  
Appleton, WI 54912-8002 • 800.558.3402 • [www.natptax.com](http://www.natptax.com)**

Chairwoman Miller, Ranking Member Lynch, and Members of the House Government Reform Regulatory Affairs Subcommittee, thank you for the invitation to participate in today's hearing to examine the implications of the Paperwork Reduction Act and the burdens placed on taxpayers.

My name is Larry Gray and I am the managing partner of Alfermann Gray & Co. I have served on the IRS Commissioner's Advisory Group from 1992 until 1994 and various Subcommittees, including Compliance and Small Business.

The Paperwork Reduction Act has largely failed its purpose as evidenced by the following statistics. According to the U.S. General Accounting Office, the annual paperwork burden imposed by the federal government was 7.4 billion hours for fiscal year 2000 and by the end of fiscal year 2003, the burden had increased by nearly 10%, accounting for 8.1 billion hours.

The burden associated with the excessive paperwork hits taxpayers and tax professionals particularly hard. The U.S. General Accounting Office estimated that the Internal Revenue Service accounts for more paperwork hours than any other federal agency, accounting for 81% of the total hours each year.

Failure of the Paperwork Reduction Act can be attributed in part to the tax law changes in recent years and the additional forms, instructions, and administrative pronouncements and rulings required to implement the new laws. According to U.S. General Accounting Office estimates, taxpayers spent an additional 330 million hours filling out tax paperwork in fiscal year 2002 due to the implementation of the Economic Growth and Tax Relief Reconciliation Act of 2001 and other IRS regulations. The Jobs and Growth Tax Relief Reconciliation Act of 2003 generated an estimated 113.9 million additional hours of burden to taxpayers according to IRS Commissioner Mark W. Everson.

Improvements to the current system would provide some much needed relief to weary taxpayers and tax professionals alike. I will now describe areas in need of reform such as e-filing, forms management, documentation requirements, IRS communications, and record retention.

E-filing allows taxpayers to file taxes electronically instead of by paper. The system not only saves paper but is more efficient for both taxpayers and the IRS. It

is estimated that if the e-filing system accommodated all taxpayers, the paperwork caused by tax preparation would be slashed by one-third. But the current e-filing system has flaws that decrease its usage. For example, taxpayers with amended tax returns and taxpayers with more than one Form 2106 to report unreimbursed employee expenses cannot e-file. Moving all return types to one platform, xml, would resolve many of the e-file issues.

E-filing Forms 940 and 941 requires taxpayers to incur additional costs not incurred with paper filing. Imposing such costs discourages taxpayers from utilizing the e-filing option which compounds the problem of the paperwork burden.

Another area in need of improvement is forms management. The sheer volume of forms is startling. David Keating of the National Taxpayers Union in NTU Policy Paper 110 stated that the IRS now prints over 1,100 publications, forms, and instructions that total over 16,300 pages in length. Taxpayers and tax professionals are hindered by the vast amount of required forms and spend considerable amounts of time reading instructions and publications to determine the proper way to complete the required form.

Form management could be accomplished by eliminating forms that are not necessary for the effective administration of the tax laws. Examples include the forms that are required for taxpayers who wish to get an automatic extension of time to file their tax returns. Currently Form 7004 is required for corporations, Form 4868 for individuals, and Form 8736 for partnerships and trusts. Why are these forms required when these extensions are automatic and do not require IRS approval?

Additionally, separate forms exist that could be combined into one form to help simplify matters for taxpayers and the IRS. For example, Forms SS-4, 8832, and 2553, could be combined into a single form which would allow new businesses to request their taxpayer identification number and elect their entity classification in one easy step.

Another area for improvement would be reduction in the documentation required to be filed when the IRS already has the information that has to be submitted. To illustrate, when an amended tax return is filed, the taxpayer submits not only Form 1040X but also a copy of the original which is wasteful.

Forms are also designed in such a way that multiple forms are required if taxpayers have multiple properties. For example, if taxpayers own multiple rental properties, each rental property requires its own Form 4562 to report depreciation. This is but one example where extra forms are needed but do not further the administration of the tax laws in any way.

IRS communications with taxpayers need to be changed. Taxpayers receive notices that are triggered automatically and result in taxpayer receiving notices just after they have responded to a notice sent earlier. The automatically triggered notice requires the taxpayer to respond again and the result is more paper and time wasted for the taxpayer.

Taxpayers under IRS audit also encounter paperwork burdens. Taxpayers receive multiple requests for the same information and married taxpayers receive two copies of certain information requests even though they file joint tax returns. Problems are not limited to audits. Taxpayers who participate in Offers in Compromise are often asked to resubmit the same information multiple times.

IRS communications could be vastly improved if a two-way system of communication via email were implemented as a communication channel. Email would facilitate faster responses to taxpayer inquiries and would be an efficient method for taxpayers to contact the IRS.

Another area in need of change is record retention. Currently, taxpayers are advised to keep copies of original tax returns for at least six years while tax preparers are required to keep copies of client returns for three years. This burden is further compounded by the fact that audit issues can cause the need for information to be retained from earlier periods. Approximately 170 million tax returns of various types are filed each year. Complying with the requested guidelines, assuming one return would be five pages in length (a very conservative estimate), would result in the need to store 8 billion pieces of paper! A more practical approach would be to place the burden of storage on the IRS since they already retain the information anyway.

Paperwork burdens have also been caused by the sheer complexity of the tax code. While there is hope that the Presidential Task Force will make proposals for simplification, there is much to be done in the interim. While the time I have to speak is limited, there is much more that could be communicated on this topic. I have only been able to speak to a few of the more pressing issues.

Thank you for your time and consideration of my comments. Chairwoman Miller and members of the Subcommittee, I look forward to our dialog and your questions on this issue.